

CENTRAL INTELLIGENCE AGENCY

INFORMATION REPORT

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COUNTRY	Hungary	REPORT	
SUBJECT	New Economic Program of the Hungarian Government	DATE DISTR.	15 January 1954
DATE OF INFO.		NO. OF PAGES	6
PLACE ACQUIRED		REQUIREMENT NO.	RD
		REFERENCES	25X1

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THE SOURCE EVALUATIONS IN THIS REPORT ARE DEFINITIVE.
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(FOR KEY SEE REVERSE)

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1. The Crisis in Heavy Industry

- a. Since the first half of 1953, Hungarian heavy industry has been in the throes of an acute crisis. Symptoms of this crisis appeared even earlier, but were camouflaged by Party propaganda attributing failures and shortcomings to enemy intrigue and faulty management and organization on the part of the directors of the state undertakings.
- b. As against the official Party propaganda, leaders of the Party and heavy industry have for some time been making reluctant admissions [redacted] of shortages of primary raw materials in industry and the inferior quality of products. Simultaneously they have admitted the falling off in agricultural production.
- c. These veiled admissions were, however, only a feeble attempt to conceal the real nature of the crisis facing heavy industry as a result of the insufficiency and inferiority of such basic raw materials as coal, coke, iron ore, etc.

2. Shortages and Quality Deficiencies

The following examples will give some indication of the extent of the shortages and the inferior quality of available stocks.

a. Electric Power

As a result of lack of coal supplies power plants have been unable to supply sufficient current. The present situation is reflected in measures introduced in September 1953, restricting general consumption in households by cutting off current for a period of 2-3 hours every morning and afternoon.

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25 YEAR RE-REVIEW

STATE	X	ARMY	X	NAVY	X	AIR	X	FBI		AEC		ORR Ev	X	BFO	X
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b. Coal

The shortage of coal has always been chronic, but at the beginning of September 1953, it became so acute that even industrial plants had to cease work for 1-2 hours per day.

c. Coke

- 1.) The coke shortage, which was felt very strongly in the first half of 1953, presents the gravest problem to iron works and foundries.
- 2.) Coke produced locally in Hungary contains so much sulphur that it is impracticable for smelting purposes. Coke supplied by Czechoslovakia and Poland is too fine-grained (kleinkernig) and lacking in solidity (mit minderer Festigkeit ausgebrannt) to be of any use in blast furnaces and foundries.
- 3.) Had [] not supplied high quality coke, foundries would have been forced to cease work in June or July, 1953.
- 4.) The production of coke for smelting by a special process from brown coal is planned at Komlo. Successful laboratory tests of this process have been carried out, but production has not yet started. When it does finally start the Komlo coke production has been earmarked exclusively for the Stalin Iron Works, at Sztalinváros.
- 5.) Zoltán Vass, former head of the State Planning Office, is now in charge of the Komlo coke project.

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d. Scrap Iron

- 1.) This is so scarce that the Government has been forced to organize throughout the country increasing numbers of so-called iron-collecting days and weeks.
- 2.) From time to time scrap iron has been received [] but these deliveries cover only about 20-25% of requirements.
- 3.) A further serious problem for plants working with Martin furnaces is caused by the unclassified state of scrap iron. As a result of this, and the fact that foundries receive parts of scrapped machinery in large pieces (due in turn to the scrap iron depots and foundries having no machines to break up these large pieces), furnaces use too much material, the output is low, and the quality is very bad.

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e. Iron Ore

- 1.) Iron ore coming from the USSR is so fine-grained and dusty, and contains so much silicon acid (Silicium Säure) that it has proved impossible to extract even medium quality steel from it.
- 2.) Martin furnaces cannot be properly fed with refreshing (erfrischenden rein) ore. At the same time production is boosted by "work competitions" to such an extent that it is impossible to comply with production regulations.

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f. Coal, Coke and Iron Ore

- 1.) Plants usually have only 24 hours reserves of coal, coke and iron ore.
- 2.) Recently the railroads have been ordered to transport these materials on passenger and express trains.

g. Nickel, Chromium and Quality Steel

- 1.) For the past year there has been a serious shortage of nickel and chromium, and of steel containing nickel and chromium alloys. As a result it has been impossible to add the prescribed quantities of nickel and chromium to steel alloys.
- 2.) Quality steel, containing special alloys, may only be used with special permits. These are issued on the recommendation of committees of experts.
- 3.) Even special materials can frequently not be produced because the alloys required for them are not available.
- 4.) Instead of steel containing nickel or chromium, use is being made of a so-called "utility steel".
- 5.) About 12 committees of experts have been set up to solve the problem of finding a substitute for quality steel, with promises of special premiums for successful results.
- 6.) The shortage of nickel and chromium is most strongly felt in connection with surface protection. Machines and machine parts, previously coated with nickel and chromium, are now frequently merely painted. Experimental use is being made of phosphates and bonderization (sic) with a view to solving this particular problem.
- 7.) A large delivery of bicycles to China was recently rejected as a result of poor nickel finish.

h. Copper and Brass

There is a great shortage of these. Usually only 50% of the requirements of plants are allotted, and even these irregularly. This causes most serious difficulties in the high frequency and telecommunications industries.

i. Ball Bearings

- 1.) This is one of the most critical of all shortages, and is felt particularly in the production of vehicles and machine tools.
- 2.) Ball bearings [] may only be used with special license. It frequently happens that when these are given there are no ball bearings available. 25X1
- 3.) In spite of the fact that large quantities of bearings are obtained from [] the USSR (an average of one carload daily), these do not meet demands. Their quality is also unsatisfactory. 25X1

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3. Reasons for Shortages

The following are the main reasons, in order of importance, for the shortages described above:

- a. The cessation of deliveries 25X1
- b. The reduction of coke deliveries from Poland, and iron deliveries from Czechoslovakia;
- c. Defective quality of imported raw materials.

4. Repercussions to the New Government Program

- a. It was against the background of this crisis in heavy industry that the Chairman of the Council of Ministers, Imre Nagy made his speech on 4 July 1953, announcing the Government's new economic program. The speech caused the wildest speculation among vast sections of the uninformed public. There was general agreement that the new program was in some way connected with Malenkov's advent to power and Beria's downfall. In fact Nagy's speech was made a few days before Beria's arrest. However, it was generally assumed that his pending disgrace was known in advance to the leaders of the Hungarian Government.
- b. Throughout Hungary the speech was received with enthusiasm. Everybody expected and hoped for a change for the better. Only those who were dealing with industrial matters were skeptical, having no clear picture as to what was to happen and how. Nagy stressed in his speech that the success of his program depended on the total fulfilment of all plans. Industrial experts saw clearly that if plans were not reduced and the supply of raw materials not improved, there could be no change. In fact, up to the end of September 1953, there was no material change.
- c. Following Nagy's speech work came to a virtual standstill in government offices and undertakings while everybody discussed the future. It was particularly interesting to observe the attitude of Party members. They had obviously not yet received their directives and were anxious to avoid all questioning. However, some of the bolder elements began asking whether all they had been taught in Party courses was false, and in particular the repeatedly stressed doctrine that the development of heavy industry is the cornerstone of socialism. There were some even who talked of making Rakosi the scapegoat for the crisis. Many asserted that he had left his private villa; others talked of his going to Bucharest to take over the leadership of the Cominform. A reorganization of the Party Secretariat at this time seemed to confirm these rumors.
- d. Meanwhile governmental officials, and particularly those working in the ministries concerned with industry, waited to see what changes were to be introduced. When they asked questions about the future and their new duties, they were told that the Planning Office had not yet worked out the figures. Finally, towards the end of July 1953 an announcement was made to the effect that investments in heavy industry would have to be reduced, but simultaneously all plans must be completely fulfilled, as this was a precondition to the carrying out of the new program. Particular emphasis was laid on the fulfilment of export plans, and the special importance of western exports as a means for earning foreign currencies, was stressed.

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- e. Party agitation in support of these aims then set in with full force. At Party meetings there was much talk about closing of ranks in order to carry through the new program, to intensify the fight against the enemy, and to increase vigilance. Stricter political measures were introduced. Everybody was screened anew, at his place of work and in the Party. Party Directorates throughout the country were reelected during July and August.

5. Reduced Production in Heavy Industry

- a. In some undertakings there has been a very slight reduction of production plans, accompanied by great publicity; but only in such undertakings and in respect of such products where original plans could never have been fulfilled. Thus, at the Lenin Steel Works at D^osgy^or and the Ganz Railroad Car Factory, production plans have been reduced by a few hundred tons per month and approximately one million forints respectively, with a view to demonstrating to the workers that the Government's promises are being carried out.
- b. Apart from this and the reduction of arms production mentioned in paragraph 6 (see below), reduced production has only occurred in smelting works, and then again merely for the reason that raw materials are scarce. Whenever raw materials become available there is no more talk of reducing plans, but the available stocks are used up with the utmost speed.

6. Armaments Industry

- a. Slowing down of production in the armaments industry commenced at the time of Stalin's death. Since then it has greatly fallen off in all arms factories, but has nowhere stopped completely. Thus, it is a fact that about 50% of the workers employed in plants producing arms have been dismissed or transferred during recent months. Furthermore, factories outside the armaments industry proper, which have been producing component parts for arms factories, have ceased to do so.
- b. The general opinion is that arms production today is limited to requirements for training purposes and for maneuvers of the Armed Forces. The real reasons for these reductions are not known. The following opinions, however, are expressed

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- 1.) Armaments have become obsolete, and Hungary can now produce other goods;
- 2.) The Korean front does not require any further supplies;
- 3.) All the machine tools and installations for armaments production are now ready. The workers have been trained. Accordingly production can be restarted whenever necessary.

- c. The reduction in the armaments industry has led to a slight improvement in the supply of raw materials for the other industries.

7. Reduced Investment in Heavy Industry

- a. On the other hand there has been a reduction of investments. In the metallurgical and engineering industries investment reductions were announced at the end of August 1953 to the staff conference of the competent ministry. Following this announcement, investment allocations for the current year, which have not yet been utilized, have generally been reduced by 80-85%.

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- b. Reduction of investments to date have been wholly illogical and unreasonable, no regard being paid to technical or any other considerations, except to the lack of raw materials and the consequent inability to carry out plans.
- c. One project in which a reduction of investment has taken place is the Budapest subway. In connection with this project it was decided to build a tubing foundry with a yearly production capacity of 28,000 tons. Although 80% completed, work has now stopped on this foundry, as it has proved impossible to date to import the required machinery [redacted] 25X1
- d. Another reason why work has had to be suspended on the subway is the insufficient supplies of cement and tubing--this despite the fact that almost every foundry of any size was producing tubing for the project. The underlying reason for this impasse is the shortage of raw iron. To assure the fulfilment of the project, tubing was given preference over all other work in the foundries and iron works producing it. This, however, resulted in the consumption of what little raw iron was available.
- e. The result of the investment reduction may be seen in the fact that the opening of one section of the subway (from the Eastern Railroad Station to the Kossuth Square), fixed for 1954, has been postponed until 1958. The opening of the section from Kossuth Square to the Southern Railroad Station, planned for 1955, has been postponed to 1960.
- f. Investment has also been reduced in the Stalin Iron Works. The start of production in certain parts of the works, which had been planned for August 1953, has been postponed for another year.

g. The delay in starting production at the Stalin Iron Works is due primarily to:

- 1.) [redacted] not keeping up (with deliveries?) with the assembly work on the spot; 25X1
- 2.) the failure to deliver the parts to be assembled on the agreed delivery dates.

h. [redacted]

- i. Investment reductions have also taken place in the power plants of Inota and Tisza^hlak. 25X1

8. Production of Consumer Goods.

There has been no concrete evidence yet of any planned increase of production of consumer goods. In particular, there has been no increase of allocations to those factories producing consumer goods, which fall under the Ministry for the Metallurgical and Mechanical Industries.

9. Expert Assessment of the New Program

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In the views of [redacted] the speech and new program of Imre Nagy is nothing more than a declaration of bankruptcy of the industrial and agricultural policy of the present Hungarian Regime, expressed and exploited with devilish cunning for the prolongation of its rule.

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